

## Newsletter

SPRING 2012

# Keep an eye on tax payments from your bank

WE HAVE come across two cases recently of a bank underpaying a client's tax.

In the first instance, the bank wrongly dishonoured a payment because it credited a deposit a day late. In the second case a cheque made out for \$5000 was read as \$50 in spite of the words clearly stating the amount as "five thousand dollars".

In both cases the two banks tried to avoid admitting responsibility. After some argument, they both admitted their errors but this left the clients exposed to late payment penalties.

IRD announced some time ago that a bank error would not be an acceptable excuse for cancelling penalties. If this ever happens to you, you might have to insist on the bank paying. A bank can be sued. Some years ago a bank wrongly dishonoured a cheque. The customer sued the bank for damages to his reputation – and succeeded.

One of our clients, who uses internet banking, set up payments in advance for income tax and GST. He had five payments to make.

At 5pm on the last day for payment, he was just about to go home and thought it would be a good idea to make sure all the payments had gone through. Four out of five had. The remaining one was flagged as pending even though there was twice as much cleared funds in the account than was needed to cover the payment.

Luckily, he was able to get through to his bank manager on the phone, who in turn spoke to the section of the bank that was responsible. The matter was cleared up with a promise to pay the tax penalties if the payment didn't go through as requested.

The client quite sensibly said next time he would check at the beginning of the day if his payments had gone through.

As stated above, it can be quite difficult to persuade a bank they have erred. Even if you are successful, you may find getting satisfaction takes a lot of time.

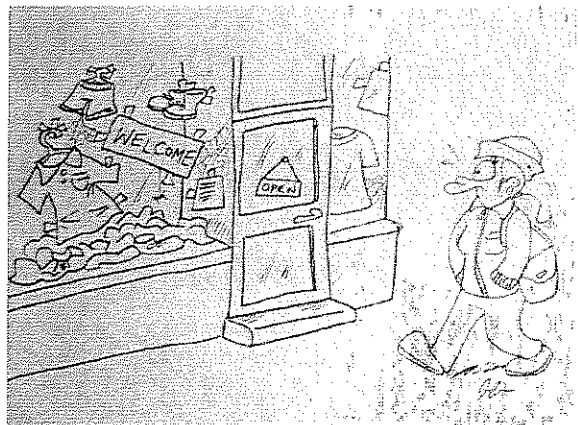
## Treat your shop window as marketing

A SHOP window for retailers is one of their best marketing tools.

We know of a shop with a huge frontage and a big shop window. However, posters were taped to some of it and the display never changed.

Think of your shop window as prime selling space. Use it wisely. It's there to entice customers in. Change your displays regularly so passers-by will stop to see what's new. Put your best selling items on display. Don't be tempted to cram the window full of products. That will just confuse people.

There's a skill in presenting a shop window. If it's not your area of expertise, consider getting specialist help.



# Never assume your ACC bills are correct

ERRORS in ACC bills are not uncommon. Check the invoices you receive.

Typical examples include:

- 1 Your ACC category can be changed. For example, accounting practice might suddenly appear as administration.
- 2 If your personal wages plus your company salary come to more than about \$110,000 a year, you could break through the maximum levy threshold. Inland Revenue supplies ACC with your company salary figure. There appears to be no system for matching this with any other wages you have received. The sum of the two incomes could exceed the maximum ACC income threshold. For example, you might have earned consulting fees of \$70,000 and have shareholder remuneration from your company of \$80,000. Both amounts are likely to be levied by ACC,

even though the total is well over \$110,000.

- 3 If you are ceasing business you are likely to get a provisional assessment for the next year. You need to get this cancelled.

You can split your ACC bill into different classifications only if you are actually running two or more distinct businesses through the one entity. You should check the rules on the ACC website if you think you qualify.

For example, if you employ office staff and you are a builder, ACC levies on office staff wages have to be levied at the rate for builders.

Strangely, if you are in partnership and one partner does the office work while the other is working in a higher risk occupation, the office worker is allowed to use the office worker classification.

Note, we have said *partnership*. This dispensation does not apply to companies.

## ACCOUNTANT'S TIP

### Avoid making loans between companies

IF YOU are operating two or more companies, try to avoid making inter-company loans.

Unless the shareholdings in both are identical, you will usually need to charge interest to the borrowing company.

If you don't, the value of the interest can be a deemed dividend, which leads to tax complications.

The best thing to do, if you want to move money between companies, is to take money out of the lending company, as your drawings (assuming you have a sufficiently big current account).

Lodge it into the borrowing company as an advance from you, the shareholder.

One thing you should never do is to pay one company's bills from the other company's bank account.

It usually creates a lot of accounting work and can be avoided by a transfer of funds, as described above.

## Declaring dividends for foreign investments

SOME individuals have shares or other equity (not loans or fixed deposits) investments in foreign countries, which do not qualify for the Australian exemption.

If the total cost is less than \$50,000, under current law you have to declare the dividends you receive.

The \$50,000 threshold can be a nuisance if you're sometimes over and sometimes under the threshold.

Also, if the dividends are significant, it will sometimes be cheaper if you could pretend your investments cost you more than \$50,000. Some bigger investors at present don't pay any tax at all.

If you have a small parcel of foreign shares, you'll be pleased to know you'll be allowed to ignore the \$50,000 threshold from next tax year onwards. Well, that's nearly true. If you happen to have a 31 July, 31 August or 30 September balance date, the new rule applies this tax year.

What should you do, now? Next time you're talking to us, put this subject on the agenda. We'll help you decide whether it would pay you to pretend you're a big player.

If you elect to change, you have to stay with your decision for four years.

# Family trusts still the safest option

WE SAW this headline in a lawyer's advertisement for a seminar: PROTECT YOUR ESTATE FROM YOUR CHILDREN'S PARTNERS

The seminar was about family trusts, and we've done articles about them before, but it's an important issue. Briefly, protection works like this:

When you die, you don't need to leave your wealth directly to your spouse or children. You may leave it in a trust set up for their benefit.

What if that dear charming marriage partner your off-spring has chosen, turns out to be a louse? He/she will usually get half of what you left to that child. If you've put everything in a trust, it's not your child's asset, so the partner will have difficulty making a claim on it.

Also, if your youngster does own the asset, look at the embarrassment for them of having to tell a potential partner: "I'm worth a little fortune. I love you and trust you but, just in case, I want a pre-nuptial agreement, which means I don't really trust you."

How much nicer to smile and say: "Yes I do," and if the relationship turns to custard, no worries. The trust owns everything and the separating partner gets none of your estate.

You don't have to wait until you are dead. Commonly people move their assets into a trust years before they pass on.

## Give-away reminders

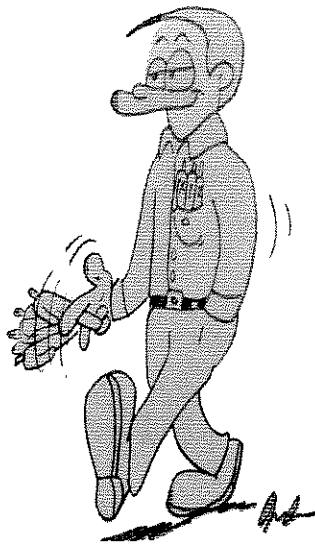
WHY give away branded pens? Does this work as a promotional tool and if so, how?

The BNZ certainly thinks so. How many BNZ pens do you have, and how often do you see other people with them or use them yourself?

Give-aways remind the recipient, regularly, of your existence. The more difficult it is to remember you, the more useful the give-away.

You might be a specialist in your field. Once you've delivered your service you're likely to be forgotten unless you can provide a reminder, like a pen. If you're an irregular or seasonal supplier, such as delivering firewood, your give-away will help you to be remembered next time.

The longer your give-away lasts, the longer you'll be remembered. Fridge magnets are a favourite give-away for this reason. Give-aways work because people are loath to



throw out something of value.

A couple of clever examples include a nail file for someone providing products for women, and a plastic device with a small blade for cutting articles out of newspapers. Be imaginative and you might come up with an excellent give-away.

## BRIEFLY

### Gifts of wine and food

IRD has recently announced that you can generally claim 100% of the costs of gifts such as food, wine or event tickets as an expense. When these items are given as gifts they are not covered by the entertainment rules. IRD qualifies this – if gifts are to employees fringe benefit tax considerations arise.

### KiwiSaver account

A recent letter from a client says: "I have just reviewed my KiwiSaver account at [XYZ] and note that I have not been given credit for Employer Contributions made in November 2011. I know they were paid as my company is the employer. I could have easily missed this if I had not quickly reviewed their statement." Do you check your KiwiSaver account? You should. Mistakes do occur and could be big. Don't forget to check the closing balance on your last statement matches the opening balance on the new one.

### Tax refunds

The IRD has issued a reminder that any tax refunds paid in error must be sent back to it. The department expects the money back within 15 days (that does not mean working days, it means two weeks) and threaten penalties and interest charges if you hang on to the money for any longer. IRD often sends out refunds and we have asked it to apply the refund to some other tax.

Pause before you bank that IRD cheque. If you allow IRD to credit refunds to your bank account, be extra vigilant. What if you check bank statements only once a month, if at all? Consider insisting they send you a cheque.

# No time for sour grapes with failed contract bids

HERE'S a story from one of our clients.

"I was selling my house and invited four real estate agents, from different firms, to tell me how they would go about getting me a buyer. Two were quickly eliminated but it was hard to choose between the last ones. I chose A and sent a dear John letter to B.

"The next day I received a long email from B. He thanked me for my time; then he discussed a couple of issues which had been worrying me, and wished me well. My reaction? If I meet anyone looking for a real estate agent his name will come to the top."

If you are unsuccessful, don't show resentment. It is not nice to have to tell someone they are not going to get a contract worth a lot of money to them. Be gracious in defeat and make the most out of it. If the arrangement the customer has made falls over, you could get the job after all. Whatever happens, you might so impress the customer that she turns into an advocate for you, as happened in this case.

## Letterhead syndrome

IF YOU have a friend starting in business, don't let them spend hours thinking about what their business cards and letterhead will look like. We call this letterhead syndrome.

People suffering from this complaint are putting too much emphasis on image and not enough on how to get customers. They should be focused on what they are going to sell and who their customers are going to be.

Where do you find these prospective customers and then how do you make contact with them?

We know of a man who runs a garden maintenance business, cutting lawns etc. He belongs to a contract bridge club. He advertises in its magazine and gets work from it. Have a look at who plays bridge. Many of them have gray hair. They are a great target for his type of business.

## How to win a quote and get a good price

A PAINTING contractor has a novel way of explaining his quotes to prospective clients.

As part of the quote, he insists on the right to discuss with the owner, the merits of all prices when they are in. His prices are relatively higher and yet he gets most of the jobs.

He is able to explain to the owner why his price should be accepted, which could be for any number of reasons. He is selling the quality of the job. The lowest price is not necessarily going to be the cheapest and he gets the opportunity to explain why.

## It's the little extras that count

A JOURNALIST prepares our newsletters from the articles we provide. When he set out a recent newsletter, he added little extras. For example, there was an explanation to help you understand what a PIE is. There was also a picture of Edward De Bono to go with our article about how to think. These additions add value and cause customers to say WOW! Do those little extras and keep your customers and clients.



## TAX CALENDAR

### August 28

1st instalment of 2013  
Provisional tax if you pay  
three times a year  
(March balance dates)

### September 28

2nd instalment 2013  
Provisional tax (December  
balance dates)

### October 29

1st instalment of 2013  
Provisional tax for those who  
pay GST twice a year.  
(All March balance dates)

### November 28

1st instalment of 2013  
Provisional tax  
(June balance dates)

## Instant karma will get you on social media

THEY say a person with one bad experience will tell 15 others.

It used to take time for the bad news to spread. Now it's instant and there sure are more than 15 people who can find out about the bad experience once it gets published on the web.

Never has it been more important to watch the quality of your service.

Play safe if you get a complaint. Bend over backwards to send customers away happy, even if they seem unreasonable. Just make sure you are too full to accept another booking from them.

Poor business practice is going to be harder to hide. Watch your reputation or risk it being exposed in the social media.